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JAPAN'S FOREIGN AID PROGRAM: 1991 UPDATE

Summary

In recent years the Japanese government has acknowledged the challenges to its foreign aid program presented by global expectations and demands. The Persian Gulf crisis provided Tokyo a dramatic impetus to give greater shape to the bolder political role for Japan's aid program hinted at last year. The new aid guidelines, which call on the government to weigh recipient nations' policies in certain areas, are seen by some observers as a step toward clearer articulation of the principles guiding Japanese development assistance.

Tokyo has made progress toward the general targets set in 1988 for improving both the quantity and the quality of its official development assistance, providing over $9 billion in grants and loans in 1990. Yet a number of aid experts believe that the Japanese aid program has not yet taken on the focus or the responsibilities implicit in Japan's role as one of the world's largest ODA donors. The difficulties of carrying out stated goals and effectively implementing development projects remain. Moreover, evolving international demands and domestic pressures are forcing donor nations, including Japan, to reexamine their definitions of aid and what they hope to achieve through economic assistance to developing countries.

1990 Aid Comparisons

Outlays of more than $9 billion in official development assistance in 1990 again ranked Japan as one of the largest donors of foreign aid among the

18 nations participating in the Development Assistance Committee of the Organization for Economic Cooperation and Development (see Table 1). The United States ended Japan's one-year reign as the top donor of foreign aid among DAC members with net disbursements of $11.4 billion, the Paris-based OECD announced this past October.[1] Japan and the United States have vied for the number-one spot for several years, and aid experts anticipate further switches in the top slot in the future.

In both yen and real terms Japan's foreign aid disbursements have been on the rise in recent years. Total ODA outlays as figured by the OECD increased 6.2 percent on a yen basis in 1990 and 4.2 percent after adjustment for changes in prices and in the yen-dollar exchange rate. Bilateral assistance rose 3 percent in real terms last year, while disbursements to multilateral institutions increased 8 percent, the OECD reported. When disbursements to Eastern European nations (not considered developing countries by the OECD and therefore omitted from DAC statistics) are included, Japan's 1990 aid expenditures totaled $9.2 billion. Assistance to individual countries, including Eastern Europe, amounted to $6.9 billion, an increase of 2.4 percent; money channeled through multilateral institutions came to $2.3 billion, a gain of 4.4 percent. Overall, net disbursements on a DAC basis rose 1.2 percent in dollar terms in 1990.

Based on the size of last year's increase, many observers question whether Japan will be able to meet its target of disbursing $50 billion in foreign aid over the 1988-92 period unless the yen appreciates significantly against the dollar. According to Japanese government calculations, ODA disbursements between 1988 and 1990 totaled $27.3 billion, leaving roughly 45 percent of the target to be met in the final two years of the fourth medium-term plan.

Related to its goal of an expanded volume of aid is Tokyo's endeavor to increase economic assistance as a percentage of the nation's gross national product. Foreign aid as a share of GNP for the 18 DAC members combined was 0.35 percent in 1990, only slightly higher than the comparatively low 1989 level of 0.34 percent. Japan's figure of 0.31 percent, however, was unchanged (see Table 2). As in 1989, Japan ranked 12th among DAC members on this scale; the U.S. ratio of 0.21 placed it next to last. Japan and the United States have made little, if any, progress in boosting foreign aid as a percentage of GNP since 1987, when they took over the two top spots in terms of net disbursements.

[1]Currency fluctuations and the timing of contributions to multilateral institutions, often a factor in the records of DAC members' foreign aid efforts, are particularly important to consider when comparing the aid programs of Japan and the United States. U.S. payments to multilateral institutions, made in line with fiscal year appropriations, at times have been concentrated outside the calendar year the OECD uses to record foreign aid statistics. In 1989, for example, the OECD recorded particularly low U.S. contributions, clearing the way for Japan to assume the number-one donor position. Conversely, U.S. contributions to multilateral organizations made up a large part of the 48.1 percent jump in this country's 1990 foreign aid.

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Table 1: ODA of Major Donor Countries, 1986-90

(in millions of dollars; net disbursements)

1990 Rank	Country	1986	1987	1988	1989	1990*	Share of Total DAC ODA 1990*
1	United States	$9,564	$8,945	$10,141	$7,676	$11,366	21.0%
2	Japan	5,634	7,342	9,134	8,965	9,069	16.8
3	France**	3,403	4,489	4,777	5,162	6,571	12.2
4	Germany	3,832	4,391	4,731	4,948	6,320	11.7
5	Italy	2,404	2,615	3,193	3,613	3,395	6.3
6	United Kingdom	1,737	1,871	2,645	2,598	2,647	4.9
7	Canada	1,695	1,885	2,347	2,320	2,470	4.6
DAC Total***		36,663	41,426	48,132	46,723	54,077	100.0

*Preliminary.
**Excluding overseas departments and territories.
***1990 total includes France's overseas departments and territories but does not include disputed amounts.

Source: Organization for Economic Cooperation and Development

Table 2: ODA as Percentage of GNP for DAC Countries, 1986-90

(in millions of dollars; net disbursements)

1990 Rank		1986		1987		1988		1989		1990*		Percent Change 1989-90*
		Amount	Percent of GNP	Amount	Percent of GNP	Amount	Percent of GNP	Amount	Percent of GNP	Amount	Percent of GNP	
1	Norway	$798	1.20%	$890	1.09%	$985	1.13%	$917	1.05%	$1,207	1.17%	31.5%
2	Netherlands	1,740	1.01	2,094	0.98	2,231	0.98	2,094	0.94	2,592	0.94	23.8
3	Denmark	695	0.89	859	0.88	922	0.89	937	0.93	1,171	0.93	25.0
4	Sweden	1,090	0.85	1,375	0.88	1,534	0.86	1,799	0.96	2,012	0.90	11.8
5	Finland	313	0.45	433	0.49	608	0.59	706	0.63	846	0.64	19.8
6	France**	3,403	0.48	4,489	0.51	4,777	0.50	5,162	0.54	6,571	0.55	27.3
7	Belgium	547	0.48	687	0.48	618	0.39	703	0.46	891	0.45	26.6
8	Canada	1,695	0.48	1,885	0.47	2,347	0.50	2,320	0.44	2,470	0.44	6.5
9	Germany	3,832	0.43	4,391	0.39	4,731	0.39	4,948	0.41	6,320	0.42	27.7
10	Australia	752	0.47	627	0.34	1,101	0.46	1,020	0.38	955	0.34	-6.3
11	Italy	2,404	0.40	2,615	0.35	3,193	0.39	3,613	0.42	3,395	0.32	-6.0
12	Japan	5,634	0.29	7,342	0.31	9,134	0.32	8,965	0.31	9,069	0.31	1.2
13	Switzerland	422	0.30	547	0.31	617	0.32	558	0.30	750	0.31	34.5
14	United Kingdom	1,737	0.31	1,871	0.28	2,645	0.32	2,598	0.31	2,647	0.27	1.9
15	Austria	198	0.21	201	0.17	301	0.24	282	0.23	389	0.25	37.7
16	New Zealand	75	0.30	87	0.26	104	0.27	87	0.22	93	0.22	6.7
17	United States	9,564	0.23	8,945	0.20	10,141	0.21	7,676	0.15	11,366	0.21	48.1
18	Ireland	62	0.28	51	0.19	57	0.20	49	0.17	57	0.16	16.3
DAC Total***		36,663	0.35	41,426	0.34	48,132	0.36	46,723	0.34	54,077	0.35	15.7

*Preliminary.
**Excluding overseas departments and territories.
***1990 total includes France's overseas departments and territories but does not include disputed amounts.

Source: Organization for Economic Cooperation and Development

Japan's 1990 Aid Efforts

In a summary of its 1991 report on official development assistance the Ministry of Foreign Affairs acknowledged that Japan's foreign aid contribution is still low "when measured according to recognized international criteria." Those yardsticks include not just the ratio of aid to GNP, the principal measure of the amount of aid disbursed by donor nations, but also indicators of the quality of economic assistance -- notably, the share of aid given as grants and the grant element of loans, a measure of concessionality that weighs the interest charged, the length of the loan and the grace period.

During the 1988-89 period Japan ranked last among DAC members in terms of the share of grants in its total ODA commitments. Its two-year average of 42.4 percent was far below the all-DAC figure of 75.6 percent; the Japanese ratio also represented a drop from the 1987 level of 46.6 percent. The grant element or "softness" of Japanese loans averaged out to 57.2 percent in the 1988-89 time frame. Here, Japan's average was closer to that of other DAC members in the 1988-89 period (57.4 percent overall).

Although the international donor community generally considers grants to be higher quality development assistance than loans, Japan's aid philosophy that recipient nations should work toward economic self-sufficiency biases the program toward loans, which instill the discipline of repayment. While both loans and grants increased in 1990, more of Japan's bilateral ODA consisted of loans last year than in the previous year, 56.5 percent compared to 55.2 percent (see Table 3). In dipping from 44.8 percent in 1989 to 43.5 percent in 1990, grants as a share of bilateral aid returned to the 1983-87 average.

The 1988-92 foreign aid plan calls for Japan to expand the amount of aid given in grant form, particularly to the least developed countries. The Foreign Ministry's 1991 aid review indicated that grants as a share of bilateral aid to the least developed countries increased last year to 66.2 percent, up from 64.7 percent in 1989. Calls for continued efforts in this area found support in the report, which indicated that funds for grants were being expanded and that more money would be earmarked for nonproject-type grants and small-scale project grants. However, the Foreign Ministry report also hinted that loans will continue to be an important element in Japan's economic assistance: "There should be greater recognition of the utility of ODA loans. Grant aid should be provided primarily to the less-developed countries."

Japan continued to make progress in 1990 on another measure of aid quality, the percentage of assistance allocated to basic human needs. Last year 34.3 percent of Japan's bilateral aid went to support basic human needs -- defined as assistance for social infrastructure and services, agriculture, food aid and emergency needs -- up from 28.2 in 1989. Although in recent years Tokyo has scaled down significantly the proportion of its bilateral aid directed to economic infrastructure projects, such as transportation networks and power plants, aid for this purpose dropped marginally in 1990 to 31.5 percent from 31.7 percent.

Disputes Over Tied Aid

In 1990 the Japanese government continued to address recurring criticism from abroad that its foreign aid program is intertwined too closely with Japanese private-sector interests. Many aid experts acknowledge that Tokyo has made

Table 3: Net Flow of Financial Resources from Japan to Developing Countries and Multilateral Agencies, 1986-90*

(in millions of dollars; net disbursements)

Type of Transaction	1986	1987	1988	1989	1990	Percent Change 1989-90
Official Development Assistance	$5,634	$7,454	$9,134	$8,965	$9,222	2.9%
Change Over Previous Year	48.4%	32.3%	22.5%	-1.9%	2.9%	
ODA/GNP Ratio	0.29%	0.31%	0.32%	0.31%	0.31%	
Bilateral Assistance	3,846	5,248	6,422	6,779	6,940	2.4%
Grants	1,703	2,221	2,908	3,037	3,019	-0.6%
Grant Assistance	855	1,154	1,483	1,556	1,374	-11.7%
Technical Assistance	849	1,067	1,425	1,481	1,645	11.1%
Development Lending and Capital	2,143	3,027	3,514	3,741	3,920	4.8%
Grants, Capital Subscription and Loans to Multilateral Agencies	1,788	2,207	2,712	2,186	2,282	4.4%
Addendum:						
ODA in Yen Terms (billions)	Y950	Y1,078	Y1,171	Y1,237	Y1,335	7.9%
Change Over Previous Year	4.8%	13.5%	8.6%	5.7%	7.9%	

*Includes ODA to Eastern Europe

Source: Ministry of Foreign Affairs

significant progress in moving away from its past tendency to tie aid to the purchase of goods and services from Japanese firms. In the mid-1980s almost half of Japan's ODA loans were tied. By 1988, the government calculated, the untied portion of total bilateral ODA was 72.8 percent; that figure, it said, contrasted favorably with its estimate that 21.6 percent of U.S. bilateral aid was untied that year. (The OECD came up with different numbers for the untied portion of Japanese and American bilateral ODA in 1988, but the statistics are of the same order of magnitude.) By last year the share of Japan's ODA loans that was untied had climbed to 84.4 percent, up 3.9 percentage points from 1989's figure, the Foreign Ministry reported.

Part of the dispute over tied aid stems from definitional differences. Ernest Preeg of the Washington-based Center for Strategic and International Studies contends that Japanese figures on untied aid are overstated because Tokyo reports as untied those projects in which the engineering work must go to Japanese companies. This contradicts an agreement among DAC members that projects are to be considered tied if any money must be spent in the donor's country, he adds.[2] Some aid experts also argue that the nature of Japan's aid system results in de facto tying. They point out that Tokyo's "request-only" aid policy works to the advantage of Japanese contractors and that Japanese interests are at times behind the in-country firms that win aid-funded projects.

Addressing this criticism, Tokyo has estimated that the percentage of loan-funded procurements that went to Japanese businesses was only 27 percent in 1990 compared to a 1986 peak of 67 percent. Robert Orr, director of the Kyoto Center for Japanese Studies and Stanford Center for Technology and Innovation, has pointed out that the appreciation of the yen since 1985 and Japan's increased emphasis on program loans, combined with government attention to broadening the scope of its foreign aid, have tended to unhook procurement.[3] "Through such efforts," the 1991 Foreign Ministry foreign aid report concluded, "criticism that Japanese aid comes with strings attached will no longer apply."

Criticism is unlikely to abate, however, since some aid experts and representatives of donor nations continue to argue that Tokyo's statistics are not an accurate reflection of which country's private sector benefits from business opportunities created by Japanese aid. Moves to address the tied aid debate in the multilateral arena and in Washington reveal the divisiveness of the issue.

International Efforts - After years of talking about ways to limit the use of tied aid, OECD members tentatively agreed in late October to a new regulatory framework. The rules prohibit donor nations from providing tied aid to higher-income developing nations, such as Brazil, Mexico and Venezuela, and constrain the use of this practice for certain projects in middle-income recipient nations. Donors will be allowed to tie aid going to the least developed

[2]Ernest H. Preeg, "Comment" in Shafiqul Islam (ed.), Yen for Development: Japanese Foreign Aid and the Politics of Burdensharing (New York, New York: Council on Foreign Relations Press, 1991), p. 115.

[3]Robert M. Orr, Jr., "Japanese Foreign Aid in a New Global Era," SAIS Review, Summer/Fall 1991, p. 138.

countries, however. The arrangement does not cover grants, food aid and humanitarian assistance. It also does not apply to the countries of Eastern and Central Europe, although OECD countries previously had agreed to make their "best effort" not to tie aid in this part of the world. Barring objection from any OECD member, the agreement is slated to take effect December 16. Some observers are skeptical that the guidelines will dissuade donor nations, including Japan, from practices that result in aid-funded business going to domestic firms.

Washington's Actions - The OECD negotiations are part of a long battle by Washington to win reductions in the use of tied aid, which the White House regards as trade-distorting. Capitol Hill also has targeted the practice, most recently in a provision included in the foreign assistance authorization bill aimed at directing more of the benefits of U.S. foreign aid to American businesses. Lawmakers meeting to reconcile the House and the Senate versions of the bill in mid-September recommended that during the FY 1992-FY 1993 period the Agency for International Development funnel $1.35 billion of U.S. aid into capital projects tied largely to the use or the purchase of American goods and services.

The compromise significantly narrowed an amendment offered by Sen. David Boren (D, Okla.), which was based on the Aid for Trade Act he introduced in March with the support of Democratic colleagues Sens. Lloyd Bentsen (Texas), Robert Byrd (W.Va.) and Montana's Max Baucus (see JEI Report No. 30B, August 9, 1991). Although the conference committee dropped the mandates and the restrictions in the original amendment to the Senate bill, the provision's supporters were said to be satisfied that the compromise version recommends higher levels of funding than currently directed toward capital projects. Also retained in the compromise measure was a separate provision that links cash transfers disbursed through the economic support fund program (a category of aid extended to countries of special strategic significance to the United States) to the purchase of U.S. goods and services and the use of American-flagged vessels.

The Bush administration, which has expressed opposition to such provisions as the requirement on cash transfers, will not get a chance to act on the compromise measure. After Senate passage of the two-year, $25 billion foreign aid authorization bill in early October, the House rejected the bill late that month. The action reflected both congressional concern about the U.S. economy and the majority party's charges that the Bush administration is ignoring domestic problems. This issue is likely to resurface when Congress considers a foreign aid appropriations bill, an action possible under a congressional waiver of the requirement that a measure win authorization before it is funded. The Senate Committee on Appropriations is the probable venue for the next round of foreign aid discussions. Since Sen. Byrd heads that committee and is one of the original sponsors of the Aid for Trade Act, congressional observers believe that the capital projects provision has a solid chance of surviving the appropriations process.

Supporters of the aid for trade measure contend that its primary purpose is not to retaliate against the tied-aid practices of other countries but to provide better balance in this country's foreign aid program. In a late October letter to Secretary of State James Baker, Sens. Boren, Baucus and Joseph Lieberman (D, Conn.) urged: "We must look to new ways to mobilize the private sector and make it a more active partner with the federal government in attaining U.S. foreign policy and economic development objectives." The Democratic

senators added, "It is time to take a hard look at our foreign policy objectives and insure that they support enhancement of U.S. global economic leadership."[4]

Calls to give American business a bigger role in the U.S. aid program reflect anxieties about slipping U.S. global competitiveness and contrast with the comments from some of the same groups about the tied-aid component of Japan's program. Yet even policymakers and legislators wary of using American economic assistance to further U.S. commercial interests see problems ahead for the U.S. foreign aid program. In light of waning public support, constraints on the domestic budget and rapidly changing international demands, America's aid program faces a reevaluation. That review makes it likely that Washington will continue to press Japan to do more in the foreign aid field.

Growing Worldwide Demand for Aid

Japan frequently is cited as the only nation with adequate resources to address the growing demand around the world for more development assistance. The Foreign Ministry's 1991 aid review acknowledged, "It is becoming increasingly difficult to satisfy world demand for resources, and Japan has become the focus of rising expectations." In striving to help meet this demand, the report noted, the Japanese government will continue to give priority to Asia but will extend aid in line with the development needs of other regions.

Last year Japan's bilateral assistance to Asia dropped below 60 percent of the total for the first time (see Table 4). Even within Asia, however, the distribution of Japanese aid has been criticized. Some in the international donor community have called on Japan to increase its assistance to the poorer areas of the region. In 1989, for example, Southwest Asia (India, Pakistan, Nepal, Bangladesh, Bhutan, the Maldives and Sri Lanka) received 16.1 percent of Japan's bilateral ODA, compared to the 32.8 percent disbursed to more developed Southeast Asia. That same year, however, Japan was the largest aid donor to India, Bangladesh, Sri Lanka, Bhutan and the Maldives.

Despite the ongoing emphasis on Asia, shifts in the regional distribution of Japan's country-specific aid in 1990 reflected global developments that year. Aid to the Middle East returned to a level slightly above that of 1987. Disbursements jumped to 10.2 percent of all Japan's country-specific aid last year, closer to the Middle East's usual share in the second half of the 1980s after 1989's low level of 5.4 percent. That drop partly reflected Japan's decision to block new commitments to Egypt, one of its top past aid recipients in the region, due to Cairo's failure to repay debts owed to Tokyo. After Iraq invaded Kuwait in August 1990, however, Japan pledged $2 billion in economic aid to countries on the front line of Iraqi action, including Egypt, Jordan and Turkey (see JEI Report No. 1B, January 11, 1991). Although most of this assistance will show up as 1991 ODA disbursements, part of the Persian Gulf contribution was disbursed in 1990 and accounted for some of the increased share of bilateral ODA received by the Middle East last year.

Moreover, Eastern Europe received significantly larger amounts of aid than it ever had before: economic assistance totaling $153 million moved

[4]Letter sent by Sens. Max Baucus, David Boren and Joseph Lieberman to Secretary of State James Baker, October 30, 1991.

Table 4: Japan's Bilateral ODA by Region, 1986-90

(in millions of dollars; net disbursements)

Year	Total	Asia	Middle East	Africa	Latin America	Europe	Oceania	Unallocated
1986	$3,846 (100.0%)	$2,494 (64.8%)	$340 (8.8%)	$418 (10.9%)	$317 (8.2%)	$2 (0.1%)	$55 (1.4%)	$221 (5.7%)
1987	$5,248 (100.0%)	$3,416 (65.1%)	$526 (10.0%)	$516 (9.8%)	$418 (8.0%)	$2 (0.0%)	$68 (1.3%)	$302 (5.8%)
1988	$6,422 (100.0%)	$4,034 (62.8%)	$583 (9.1%)	$884 (13.8%)	$399 (6.2%)	$4 (0.1%)	$93 (1.4%)	$425 (6.6%)
1989	$6,779 (100.0%)	$4,240 (62.5%)	$368 (5.4%)	$1,040 (15.3%)	$563 (8.3%)	$11 (0.2%)	$98 (1.4%)	$458 (6.8%)
1990	$6,940 (100.0%)	$4,117 (59.3%)	$705 (10.2%)	$792 (11.4%)	$561 (8.1%)	$158 (2.3%)	$114 (1.6%)	$494 (7.3%)

Source: Ministry of Foreign Affairs

Table 5: Major Recipients of Japan's ODA, 1986-90

(in millions of dollars; net disbursements)

1986		1987		1988		1989		1990	
Country	Amount	Country	Amount	Country	Amount	Country	Amount	Country	Amount
China	$497	Indonesia	$707	Indonesia	$985	Indonesia	$1,145	Indonesia	$868
Philippines	438	China	553	China	674	China	832	China	723
Thailand	260	Philippines	379	Philippines	535	Thailand	489	Philippines	647
Bangladesh	248	Bangladesh	334	Thailand	361	Philippines	404	Thailand	419
Burma	244	India	304	Bangladesh	342	Bangladesh	371	Bangladesh	374
India	227	Thailand	302	Pakistan	302	India	257	Malaysia	373
Indonesia	161	Malaysia	276	Myanmar/Burma	260	Sri Lanka	185	Turkey	324
Pakistan	152	Burma	172	Sri Lanka	200	Pakistan	177	Pakistan	194
Sri Lanka	127	Turkey	162	India	180	Nigeria	166	Sri Lanka	176
Egypt	126	Pakistan	127	Egypt	173	Kenya	148	Poland	149

Source: Ministry of Foreign Affairs

Eastern Europe's share of Japan's bilateral aid from the nearly negligible range to 2.3 percent in 1990. Nearly all of this help went to Poland: disbursements of nearly $150 million made that country the tenth largest recipient of Japanese bilateral ODA in 1990 (see Table 5). These outlays reflect Japan's recent efforts to support economic and political reforms under way in Eastern Europe. In early 1990 Tokyo pledged nearly $2 billion in financial and technical assistance for Poland and Hungary (see JEI Report No. 3A, January 19, 1990): this package followed a late 1989 promise of $200 million in ODA to help the two East European nations move toward a market-driven economy.

Elsewhere, aid to Africa, on the upswing in both absolute and relative terms in the late 1980s, reversed course in 1990. Neither Nigeria nor Kenya made it onto the list of top recipients of Japan's foreign aid, although in 1989 the two had held the ninth and the tenth places, respectively. Latin America also received a slightly smaller portion of Japan's bilateral assistance last year, 8.1 percent compared to 8.3 percent in 1989, although the dollar amount was about the same in both periods.

Despite a cutback of nearly one-fourth last year to $868 million, Indonesia still managed to hold onto its ranking as the top recipient of Japan's bilateral economic assistance for the fourth year in a row (Table 5). With disbursements of $723 million, China, too, retained the position held for the previous three years of being the second-largest recipient of bilateral ODA. The Philippines, which received $647 million in aid in 1990, returned to its long-held position as one of the top three recipients of Japanese development assistance, switching places once more with Thailand.

Japan's Response to Changing Demands

Various aid initiatives and statements from the Foreign Ministry have hinted that Japan's program of economic assistance might assume a more political role (see JEI Report No. 47A, December 14, 1990). Japan traditionally has hesitated to impose political or economic conditions on aid recipients, chosen for assistance mainly for "humanitarian considerations and [in] recognition of interdependence in the international community." As a result, Tokyo has been criticized for failing to lead through its foreign aid efforts despite its weighty ODA expenditures. This year, however, Japan's foreign aid policy showed signs that international politics were a new factor in the decisionmaking equation.

The summary of the Foreign Ministry's 1991 aid review described interdependence, as encompassed in its aid philosophy, as a variable "to be determined by [the] changing international situation and Japan's position in the international community." The report emphasized that the Japanese government would boost its efforts to resolve growing international problems related to the environment, overpopulation and drugs and to increase support for the defeat of poverty. It also pointed out that certain aid initiatives undertaken by Tokyo in 1991 reflected the increasing responsiveness of Japan's aid policies to international political developments. Responses to the Persian Gulf crisis, for example, included refugee relief and reconstruction assistance in addition to aid to the neighboring countries most affected by the war.

Other politically linked aid initiatives included Tokyo's decision to expand its commitment to support economic reform in Eastern Europe. In April Japan agreed to provide approximately Y850 million ($6.3 million at Y135=$1.00)

to establish a fund for Eastern Europe within the European Bank for Reconstruction and Development (see JEI Report No. 16B, April 26, 1991). The Japanese government also has promised to provide additional funding for Hungary as well as loans for Czechoslovakia and Romania to support these countries' moves to more market-oriented economic systems. In addition, Tokyo has put aside its previous reluctance to extend large-scale aid to the Soviet Union, announcing a $2.5 billion package of export insurance and economic assistance in early October (see JEI Report No. 39B, October 18, 1991). In a response to the continued internal conflict in Yugoslavia, Tokyo announced in mid-November the suspension of technical cooperation to Belgrade and a hold on studies related to the provision of official loans.

The Case for New Foreign Aid Principles

The Foreign Ministry's 1991 ODA report noted that the Persian Gulf War and the dramatic political reforms in Central and Eastern Europe as well as the Soviet Union "have led to the emergence of a national consensus in Japan that this country's aid should play a more active role in the achievement of world peace, stability, and democratization." This consensus, it was added, is reflected in new foreign aid guidelines announced in April by then Prime Minister Toshiki Kaifu (see JEI Report No. 16B, April 26, 1991). The guidelines call on the Japanese government to take into consideration both the military and the political policies of a recipient nation before providing aid. In particular, the guidelines say, aid administrators should look at a country's military expenditures; its development and production of weapons of mass destruction, including nuclear weapons; its weapons trade; and the promotion of democracy, efforts to institute market-oriented economies and human rights safeguards.

In recent months both the World Bank and the International Monetary Fund have said that they will take military expenditures into consideration before making loans and grants to a country, underscoring their position that excessive military spending diverts scarce resources from education, health and other areas fundamental to a nation's growth and economic security. While this emphasis is new for the World Bank and the IMF, the dilemma of balancing military and social spending is not. Heated international debate on the topic in the 1960s and 1970s concluded only that both donor and recipient nations should commit fewer resources to military spending. Japan's new guidelines on military expenditures and other policy issues are unique in part because of the context in which they were developed.

The Persian Gulf War acted somewhat as a catalyst, underscoring for Tokyo the problem of arms proliferation. During the 1980-88 war between Iran and Iraq, Japan had continued economic assistance to both. After Iraq's 1990 invasion of Kuwait, Tokyo was disturbed to realize the extent to which Iraq had directed resources -- presumably including foreign aid -- for military spending, according to one Japanese official. By presenting its new foreign aid guidelines within months of the Persian Gulf cease-fire, Tokyo emphasized not only its willingness to take a greater international political lead by advocating arms control but also its concern about arms proliferation. Since the guidelines were unveiled with less of the development and the planning that usually pave the way for the announcement of new policies, the effort also may have been aimed at offsetting the image that Japan was reluctant to act on a matter of global concern, one of the criticisms leveled against the country during the Persian Gulf crisis.

Japanese diplomats acknowledge that the principles need refining and that questions regarding their implementation remain. Discussions among donor nations as well as public debate and government-funded study are expected to further shape the guidelines, which have the backing of the ruling Liberal Democratic Party as well as the opposition parties and a public willing for Japan to take the lead in addressing the problem of massive international military spending.

Nations that receive foreign aid from Japan will find their policies scrutinized in the areas encompassed by the guidelines. The Japanese government reportedly would prefer to emphasize positive steps recipient nations take in response to the guidelines. For example, Tokyo might extend additional economic assistance to countries that reduce military spending rather than punish those that violate any of the four points.

Putting New Principles to the Test - The September overthrow of Haiti's democratic government headed by President Jean-Bertrand Aristide resulted in the first application of the guidelines. Tokyo's ban on both ongoing and new commitments to Haiti was in contrast to the approach it took in response to human rights violations in Myanmar (formerly known as Burma) in 1989. At that time Tokyo temporarily blocked economic assistance but resumed ongoing projects and continued such assistance despite the refusal of that country's military leaders to transfer power to the winning opposition party following elections in May 1990. Japanese observers suggest that the new guidelines steered Tokyo toward harsher measures for Haiti.

Other times when Japan has raised the threat of its new guidelines include an August meeting between China's Premier Li Peng and then Prime Minister Kaifu, who reportedly mentioned the guidelines in his request that Beijing adhere to the Nuclear Nonproliferation Treaty and restrict military expenditures and arms exports. The Japanese government also is reported to have cited the principles when urging Pakistan to sign the Nuclear Nonproliferation Treaty this spring.

As the leading donor of bilateral aid to dozens of countries (26 in 1988) Japan certainly has the economic strength to influence the policies of recipient nations. Yet some analysts believe it will be difficult for Tokyo to implement the guidelines consistently and effectively. China, a major arms exporter and the second-largest recipient of Japan's bilateral ODA for the last four years, is most frequently cited as presenting such a dilemma. Japan sees aid to that country as a crucial stabilizing factor. Foreign Ministry spokesman Taizo Watanabe indicated in a July press conference that Tokyo had broached the new principles with Beijing and to date had "no problems with our continued aid policy toward China." The new policy, Mr. Watanabe stressed, "is not a constitution or a very strict law. It is our principle, and we are trying to apply it on a case-by-case basis, based on our determination to promote peace and stability in the world."[5]

Stanford Japan Center's Orr points out that in cases like China and Myanmar the guidelines conflict with Japan's security interests. He speculates that Tokyo will have to apply the guidelines selectively but notes that since

[5]Press conference by Taizo Watanabe, press secretary/director general for public information, Ministry of Foreign Affairs, July 23, 1991.

this is the first time Tokyo has articulated any kind of political position in its foreign aid program the guidelines do reflect change.[6] He cautions, though, that it is too early to predict their impact, particularly since the principles reflect the objectives of the Foreign Ministry, the lead agency on aid but only one of four government organizations dealing with economic assistance.[7] (The Ministries of Finance and International Trade and Industry plus the Economic Planning Agency also share various administrative responsibilities relating to ODA.)

John Sewell, president of the Washington-based Overseas Development Council, suggests that Tokyo will invite criticism if it appears to be temporizing on the new principles. The guidelines are a "good example of Japan showing leadership," he notes, "but leadership has to be applied consistently."[8]

Amid the cautions about the new guidelines are criticisms from both recipient nations and Japanese observers who question the direction of the new program. One concern is that the guidelines will interfere with recipients' sovereignty. Another is that increasing the strategic element of Japanese aid will undermine the extent to which economic assistance can meet developing countries' needs.

While most Japanese support economic assistance as a tangible means of expressing Japan's commitment to the international community, arguments persist about how best to implement the country's aid program, according to one Japanese diplomat. In its recent report on ODA the Foreign Ministry indicated that it wants to further a national consensus on aid, which it termed essential to achieving economic assistance objectives. "Educating people about assistance for developing countries is an urgent priority," the report stated. The guidelines are part of an overall effort to explain the principles underlying Japan's economic assistance. Stanford Japan Center's Orr notes that recent calls in the Japanese press for the government to clarify its ODA philosophy reveal that Tokyo still has far to go in articulating the rationale of foreign aid.[9]

A Look At Fundamental Foreign Aid Reform - A further definition of Japan's foreign aid program is under way. The latest administrative reform council, an ongoing effort to streamline operations of the Japanese government, has assigned review of the foreign aid program to a subcommittee on foreign relations; that group is expected to submit a report addressing ODA in early December. A draft report released in mid-November called for clarification of Japan's ODA strategy, including the principles to be considered in the implementation of foreign aid and plans for various regions. The final report also is expected to recommend that the government implement plans to expedite the

[6]Telephone interview with Robert M. Orr, director, Stanford Japan Center, Kyoto Center for Japanese Studies, Kyoto, Japan, November 11, 1991.

[7]Japan Economic Survey, XV, No. 3, March 1991, p. 9.

[8]Telephone interview with John Sewell, president, Overseas Development Council, Washington, D.C., November 15, 1991.

[9]Orr, telephone interview, op. cit.

screening of ODA projects, specify the roles and responsibilities of the agencies involved in yen loans, and improve aid implementation through a review of Japan's aid organizations.[10]

The suggestions of the advisory panel, which includes former government officials and private-sector representatives, will be refined by the parent group over a period of two or three years before final recommendations are sent to the prime minister. The government generally is expected to implement the council's recommendations, which some aid experts believe could have a major impact on the program. However, the time frame suggests that a significant restructuring of Japan's foreign aid program is still years away.

Continuing Challenges

Many of the issues under review by the administrative reform panel represent problems that long have persisted in Japan's foreign aid program. These include a policymaking apparatus complicated by the interplay among the four government agencies that share responsibility for aid. Another problem is understaffing of the aid bureaucracy. At the same time the most recent foreign aid review pointed to some steps Tokyo is taking to improve the implementation of its aid program, including: better project evaluation, selection and formation; increased aid-related research and training; more detailed country- and sector-specific aid policies; and expanded policy dialogue with recipients.

The 1991 report also acknowledged that Japan needs to expand its human contribution to the international community. The dearth of Japanese participants was highlighted during the Persian Gulf War; on Capitol Hill critics of Tokyo's contribution to the multilateral effort cited the absence of a greater physical presence as evidence of a lack of Japanese commitment.

A Foreign Ministry assessment of 130 aid projects in FY 1990 cited several cases in which Japan's economic assistance went to waste because it did not match local needs. This analysis underscored a point made by many aid experts that increases in aid are useless without the staffing and the infrastructure capable of overseeing the application of funds.

Outlook

In a policy speech to the Diet shortly after his election as prime minister Kiichi Miyazawa indicated that Japan's role in establishing a peaceful global order can only grow. He reaffirmed Tokyo's commitment to work for arms control and for solutions to such international problems as protection of the environment, refugee resettlement, drugs and the needs of developing nations. Gradual changes in Japan's foreign aid policies appear aimed at lending the program a larger political role and may enable Tokyo to address such issues effectively through economic assistance.

The United States, burdened by a huge federal budget deficit, long has urged Japan and other nations to share global financial responsibilities. On a mid-November trip to Japan Secretary of State Baker encouraged Tokyo to expand

[10]"Government Panel Calls for Formulation of ODA Outline," Asahi Evening News, November 11, 1991, p. 1.

its leadership not only in the economic arena but in attaining the objectives outlined by the Japanese government in the context of its foreign aid policy. This prompting is likely to continue as domestic demands impel Washington to reassess its approach to economic assistance. Many political analysts expect weakening support for foreign aid from the American public and their representatives in Congress, who are under increasing political pressure to address domestic problems before foreign needs. Both the United States and Japan face the challenge of balancing their aid programs within the shifting framework of domestic and international demands.

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The views expressed in this report are those of the author and no not necessarily represent those of the Japan Economic Institute.